

FRANKLINTON ASSOCIATION FOR CHALLENGED CITIZENS, INC.

Annual Financial Statements

As of and for the Year Ended June 30, 2013
(with 2012 summarized comparative information)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Franklinton Association for Challenged Citizens, Inc.
Franklinton, Louisiana

Report on the Financial Statements

I have audited the accompanying financial statements of Franklinton Association for Challenged Citizens, Inc. (a nonprofit organization) (the "Association"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Association as of June 30, 2013, and the changes in its net assets and its cash flows

for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustment to Prior Period Financial Statements

As discussed in Note 10 to the financial statements, the Association has restated its 2012 and 2011 financial statements during the current year to record Medicaid revenue receivable at year end June 30, 2012 and June 30, 2011, in accordance with accounting principles generally accepted in the United States of America.

As part of my audit of the 2013 financial statements, I also audited the adjustments described in Note 10 that were applied to restate the 2012 and 2011 financial statements. In my opinion, such adjustments are appropriate and have been properly applied.

Report on Summarized Comparative Information

I have previously audited the Association's 2012 financial statements, and my report dated November 8, 2012, expressed an unmodified opinion on those audited financial statements. As discussed in Note 10 to the accompanying financial statements, the Association restated its 2012 financial statements in the current year to accrue Medicaid revenue receivable at June 30, 2012. I reported on the 2012 financial statements before these adjustments. As part of my audit of the 2013 financial statements, I audited the adjustments to the 2012 financial statements and expressed the opinion that they are appropriate and have been properly applied. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements, as adjusted to accrue Medicaid revenue receivable, from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated March 13, 2014, on my consideration of the Association's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Sincerely,

BRANDY WESTCOTT, LLC



Brandy Westcott Garcia, CPA
Member

Springfield, Louisiana
March 13, 2014

Franklinton Association for Challenged Citizens, Inc.
Statement of Financial Position
As of June 30, 2013
(with 2012 comparative totals)

	<u>2013</u>	<u>2012</u> (Restated)
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 833,698	\$ 818,691
Investments	99,200	99,200
Receivables, Net :		
Accounts	104,263	144,483
Total Current Assets	<u>1,037,161</u>	<u>1,062,374</u>
Property, Plant, and Equipment:		
Land	10,000	10,000
Property, Plant and Equipment, Net	419,041	293,154
Total Property, Plant, and Equipment	<u>429,041</u>	<u>303,154</u>
Total Assets	<u>1,466,202</u>	<u>1,365,528</u>
Liabilities		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	23,045	23,511
Long Term Debt - Current Portion	5,260	4,918
Total Current Liabilities (Payable From Current Assets)	<u>28,305</u>	<u>28,429</u>
Long Term Liabilities:		
Long Term Debt	23,669	29,435
Total Long Term Liabilities	<u>23,669</u>	<u>29,435</u>
Total Liabilities	<u>51,974</u>	<u>57,864</u>
Net Assets		
Unrestricted	1,414,228	1,307,664
Temporarily Restricted	-	-
Permanently Restricted	-	-
Total Net Assets	<u>1,414,228</u>	<u>1,307,664</u>
Total Liabilities and Net Assets	<u>\$ 1,466,202</u>	<u>\$ 1,365,528</u>

The accompanying notes are an integral part of this statement.

Franklinton Association for Challenged Citizens, Inc.
Statement of Activities
For the year ended June 30, 2013 (with 2012 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2013</u>	<u>2012</u> (Restated)
Operating Revenues					
Public Support					
Medicaid	\$ 2,239,463	\$ -	\$ -	\$ 2,239,463	\$ 2,200,157
Provider Contracts	153,615	-	-	153,615	145,775
Contributions	6,580	-	-	6,580	3,607
Service and Fee Revenue	72,198	-	-	72,198	65,976
Investment Income	1,467	-	-	1,467	2,004
Other Revenues	2,925	-	-	2,925	2,557
Net Assets released from restrictions	-	-	-	-	-
Total Operating Revenues	<u>2,476,248</u>	<u>-</u>	<u>-</u>	<u>2,476,248</u>	<u>2,420,076</u>
Operating Expenses					
Program Services	2,207,015	-	-	2,207,015	2,184,300
Management and General	162,669	-	-	162,669	164,090
Total Operating Expenses	<u>2,369,684</u>	<u>-</u>	<u>-</u>	<u>2,369,684</u>	<u>2,348,390</u>
Change in Net Assets from Operations	<u>106,564</u>	<u>-</u>	<u>-</u>	<u>106,564</u>	<u>71,686</u>
Nonoperating Revenues and Expenses					
Insurance Proceeds	-	-	-	-	5,370
Change in Net Assets	<u>106,564</u>	<u>-</u>	<u>-</u>	<u>106,564</u>	<u>77,056</u>
Total Net Assets, Beginning	1,184,402	-	-	1,184,402	1,166,685
Prior Period Adjustment (Note 10)	123,262	-	-	123,262	63,923
Total Net Assets, Beginning (Restated)	<u>1,307,664</u>	<u>-</u>	<u>-</u>	<u>1,307,664</u>	<u>1,230,608</u>
Total Net Assets, Ending	<u>\$ 1,414,228</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,414,228</u>	<u>\$ 1,307,664</u>

The accompanying notes are an integral part of this statement.

Franklinton Association for Challenged Citizens, Inc.
Statement of Functional Expenses
For the year ended June 30, 2013 (with 2012 comparative totals)

	2013					2012
	Center	Supported Independent Living	Total Program Services	Management and General	Total	
Expenses						
Salaries and Wages	\$ 338,576	\$ 1,305,170	\$ 1,643,746	\$ 142,935	\$ 1,786,681	\$ 1,784,693
Payroll Taxes	29,366	113,203	142,569	12,398	154,967	152,396
Client Payroll	40,259	-	40,259	-	40,259	35,902
Cost of Self Generated Revenue	7,275	-	7,275	-	7,275	6,946
Depreciation	15,260	25,357	40,617	-	40,617	36,760
Insurance	30,731	53,245	83,976	5,331	89,307	80,678
Interest	1,855	-	1,855	-	1,855	2,471
Professional Fees	-	29,175	29,175	-	29,175	33,050
Rent	32,616	-	32,616	-	32,616	34,868
Repairs and Maintenance	4,356	16,789	21,145	-	21,145	13,631
Supplies	8,773	33,812	42,585	-	42,585	32,615
Telephone	3,050	7,489	10,539	-	10,539	11,366
Training	979	3,771	4,750	-	4,750	4,454
Transportation	54,470	13,617	68,087	-	68,087	74,760
Utilities	17,542	5,513	23,055	2,005	25,060	21,994
Other	3,042	11,724	14,766	-	14,766	21,806
Total Expenses	\$ 588,150	\$ 1,618,865	\$ 2,207,015	\$ 162,669	\$ 2,369,684	\$ 2,348,390

The accompanying notes are an integral part of this statement.

Franklinton Association for Challenged Citizens, Inc.
Statement of Cash Flows
For the year ended June 30, 2013 (with 2012 comparative totals)

	<u>2013</u>	<u>2012</u>
		(Restated)
Cash Flows From Operating Activities		
Change in Net Assets	\$ 106,564	\$ 77,056
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	40,617	36,760
Changes in operating assets and liabilities		
(Increase) decrease in receivables	40,220	(54,901)
(Increase) decrease in other assets	-	24,301
Increase (decrease) in accounts payable	(466)	4,921
Net Cash Provided by Operating Activities	<u>186,935</u>	<u>88,137</u>
Cash Flows From Investing Activities		
Purchases of property	(166,504)	(52,518)
Net Cash (Used) by Investing Activities	<u>(166,504)</u>	<u>(52,518)</u>
Cash Flows From Financing Activities		
Repayment of debt	(5,424)	(4,598)
Net Cash (Used) by Financing Activities	<u>(5,424)</u>	<u>(4,598)</u>
Net Cash Increase (Decrease) in Cash and Cash Equivalents	15,007	31,021
Cash and Cash Equivalents, Beginning of Year	818,691	787,670
Cash and Cash Equivalents, End of Year	<u>\$ 833,698</u>	<u>\$ 818,691</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 1,855	\$ 2,471

The accompanying notes are an integral part of this statement.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2013
(with 2012 summarized comparative information)

Introduction

The Franklinton Association for Challenged Citizens, Inc. (the Association) was established in 1968 to assist individuals with disabilities in the Town of Franklinton, Louisiana, and the surrounding communities to increase personal independence and to facilitate an individual's integration into the community. The Association currently services approximately 90 clients and utilizes a staff of approximately 60 full and 35 part time employees. The Association provides two major programs: the work programs at the Washington Parish Activity Center and the Supported Independent Living Program.

At the Activity Center, clients are provided daily transportation to and from the center as needed to participate in vocational and daily living skill education in a structured supportive environment. The Supported Independent Living Program provides in-home support for individual clients, designed to improve or maintain the individual's ability to take care of his or her own health and physical needs through direct training. In some cases clients require twenty-four hour care.

1. Summary of Significant Accounting Policies

A. Restrictions on Net Assets

Revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Association or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Association. Generally, the donors permit the Association to use all or part of the income earned for either general or donor-specified purposes.

B. Comparative Information and Reclassifications

The financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the years ended June 30, 2012, from which the summarized information was derived. The Association restated its 2012 financial statements in the current year and this restatements, as described in Note 10, is reflected in the e2012 summarized information.

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2013
(with 2012 summarized comparative information)

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statement, and the reported amounts of revenues and expenses. Actual results could differ from management's estimates.

D. Cash and Cash Equivalents

The Organization's cash and cash equivalents are considered to be cash on hand, demand deposits, time deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

E. Investments

Investments are reported at fair value. Investment income classified as operating revenue consists of interest and dividend income on investments and gains approved for use in operations. All other realized and unrealized gains or losses are classified as nonoperating activity and are available to support operations in future years and to offset potential market declines. Investments classified as current are available for operations in the next fiscal year.

Various methods and assumptions were used to estimate the fair value of each class of financial instruments. Cash and cash equivalents are valued at their carrying amount due to their short maturities. Investments are reported at fair value based on quoted market prices. Debt is valued at rates currently available to the Association for issuances with similar terms and remaining maturities.

F. Inventories and Prepaid Items

All inventories, when held, are valued at cost using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

G. Property and Equipment

Purchases of land, buildings, and other property having a unit cost per established guidelines and a useful life of three or more years are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Interest expense incurred during a period of construction, less related interest income earned on proceeds of tax-exempt borrowings, is capitalized. Property under capital leases is amortized over the lease term. Any gain or loss on sale of land, buildings and other property is reported as other revenues on the statement of activities. The Association maintains a threshold level of \$500 or more for capitalization of property and equipment.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

All capitalized assets, other than land, are depreciated using the straight-line method over their estimated useful lives as follows:

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2013
(with 2012 summarized comparative information)

<u>Description</u>	<u>Estimated Useful Lives</u>
Building	5 - 40 Years
Equipment – Work Account Assets	5 – 10 Years
Furniture, Fixtures, and Equipment	5 – 10 Years
Vehicles	5 – 10 Years
Leasehold Improvements	5 – 10 Years

H. Revenue Recognition

Contributions, which include unconditional promises to give (pledges) are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

The Association reports contributions in the temporarily or permanently restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the consolidated statement of activities. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period.

Product or service revenue is generally recognized upon delivery of the product or services to the customer.

Gains and losses on investments and other assets and liabilities are reported as increases and decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

I. Contributed Services and Materials

Contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. There are several volunteers which donate time in the organization's programs and supporting services, however, due to the lack of an objective basis to measure the value of these non-specialized services, no contributed service revenue has been recorded in these instances.

Donated materials are recorded at their fair value at the date of the gift. The Association does not imply time restrictions for gifts of long-lived assets. As a result, in the absence of donor-imposed restrictions, gifts of long-lived assets are reported as unrestricted revenue.

J. Income Taxes

The Franklinton Association for Challenged Citizens, Inc. is a not-for-profit Association. The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The three previous year's tax returns remain subject to examination by the Internal Revenue Service.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2013
(with 2012 summarized comparative information)

2. Cash and Cash Equivalents

Cash and cash equivalents were as follows at June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Interest Bearing Demand Deposits	\$ 833,698	\$ 818,691
Total cash and cash equivalents	<u>\$ 833,698</u>	<u>\$ 818,691</u>

The Association has deposits held in four banks totaling \$1,105,478 (bank balance) at June 30, 2013 (\$1,006,278 in cash and cash equivalents and \$99,200 in certificates of deposit held in investments). Federal Deposit Insurance covers \$250,000 of deposits at each institution. At various times during the year, the deposits with financial institutions exceeded \$250,000. At June 30, 2013, the amount on deposit with financial institutions exceeding 250,000 was \$579,231. These deposits above \$250,000 are uncollateralized (GASB Category 3) and is exposed to custodial credit risk since in the event of bank failure the Association's deposits may not be returned and the Association retains the risk for uninsured or uncollateralized bank balances.

3. Revenue and Receivables

The primary revenues for the Association come from the following sources: Medicaid revenue in the form of supportive services for the independent living program and for the vocational services program; provider contracts; and self-generated. Supportive service revenue is earned through three forms of Medicaid billings: the new opportunities waiver (N.O.W.), the supports waiver, and the elderly disabled adult waiver. The new opportunities waiver is billed based on fifteen minute units of service and can apply to both the activity center and the supported independent living programs. The supports waiver is billed in day units and can only be applied to the work programs at the activity center. The supports waiver provides fewer services than the other waiver forms and is utilized as a bridge to partially meet the needs of clients due to the lengthy waiting list for the other waiver forms on a state-wide basis.

The provider contract revenue comes from one primary source, Res Care, which is a private health services provider to Medicaid qualified clients. Res Care transports their clients to utilize the services at the activity center for a per diem rate, and Res Care is directly billed based on attendance. The primary amount included in accounts receivable at year end June 30, 2013 is from Res Care in the amount of \$37,730 and \$66,452 in Medicaid billings, both current at year end (< 30 days).

The Association maintains several sources of self-generated revenue through multiple work programs conducted by the clients, where revenue earned is put back into the program to fund ongoing supplies and equipment required to continue the program. These work programs include lawn care, cutlery packing, newspaper recycling, and janitorial services. The Franklinton Association for Challenged Citizens also operates a gift shop selling some products produced by the clients and other purchased directly for resale. The Association utilizes these forms of self generated revenue to carry out the mission of the Association while becoming less dependent on external supportive sources.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2013
(with 2012 summarized comparative information)

4. Property and Equipment

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 10,000	\$ 10,000
Buildings	432,374	296,287
Equipment - Work Account Assets	113,369	82,952
Furniture, Fixtures, and Equipment	33,304	33,304
Vehicles	156,103	156,103
Leasehold Improvements	23,186	23,186
Total cost of assets placed in service	<u>768,336</u>	<u>601,832</u>
Less accumulated depreciation	(339,295)	(298,678)
Property and equipment, net	<u>\$ 429,041</u>	<u>\$ 303,154</u>

Significant property and equipment purchases in 2013 included building construction and improvements in the amount of \$136,087; a lawn mower in the amount \$7,600; gas furnace for \$12,800; and furniture in the amount of \$10,017. There were no property and equipment dispositions in 2013.

Significant property and equipment activity in 2012 included building improvements of hardy board, a covered walkway and new steps for \$23,441 in May and an air conditioning unit for \$6,500 in June. There were no property and equipment dispositions in 2012.

Depreciation expense was \$40,617 and \$36,760 for the years ended June 30, 2013 and 2012, respectively.

5. Investments

The Association carries all investments at fair value. Fair values are based on quoted market prices. The only investments carried by the Association are the certificates of deposit at financial institutions as described in Note 2. These investments are started at cost, which approximates market. The certificates of deposit carried as investments at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Certificates of Deposits with a maturity over three months	\$ 99,200	\$ 99,200
Total investments at fair value	<u>\$ 99,200</u>	<u>\$ 99,200</u>

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
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6. Debt

On May 5, 2003, the Association purchased a tract of land and the building located on the land at 2005 Main Street, Franklinton, Louisiana for \$67,000 and financed it for fifteen years through Citizens Bank. The Association placed the building and land up for collateral on the loan for the same piece of land. In addition, the Association must hold a \$25,000 Certificate of Deposit with Citizens Savings Bank and \$10,000 will be pledged as collateral.

Debt consists of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Note Payable: \$ 67,000		
Dated 5/5/2003 due in monthly installments of principal and interest of		
\$ 592 through 5/5/2018 interest at 6.75%	\$ 28,929	\$ 34,353
Total long term debt	<u>28,929</u>	<u>34,353</u>
Less current portion	<u>(5,260)</u>	<u>(4,918)</u>
Debt, noncurrent portion	<u>\$ 23,669</u>	<u>\$ 29,435</u>

Scheduled maturities for long term obligations at June 30, 2013:

Year Ending	Note on Building		
June 30,	Principal	Interest	Total
2014	\$ 5,260	\$ 1,849	\$ 7,109
2015	5,627	1,482	7,109
2016	6,018	1,091	7,109
2017	6,437	672	7,109
2018	5,587	263	5,850
Total	<u>\$ 28,929</u>	<u>\$ 5,357</u>	<u>\$ 34,286</u>

7. Leases

The Association leases the location for its main activity center from the Town of Franklinton. The term of this lease is 99 years with lease payments of \$181.33 per month. Future lease payments under this lease are \$2,175.96 per year for the next five years. Rent expense under this lease was \$2,175.96 for the years ended June 30, 2013 and 2012.

The Association leases a building for its gift shop on a month to month basis with a monthly rental amount of \$800. Rent expenses under this lease was \$9,600 for the years ended June 30, 2013 and 2012.

The Association leases a warehouse on a month to month basis with a monthly rental amount of \$150 per month. Rent expense under this lease was \$1,800 for the years ended June 30, 2013 and 2012.

During the year ended June 30, 2011 the Association entered into an operating lease for a 14 passenger bus. The annual lease payments are \$12,000 for three years commencing in July 2010. The lease expired in the year ending June 30, 2013. Lease expense under this lease was \$12,000 for the years ended June 30, 2013 and 2012.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2013
(with 2012 summarized comparative information)

The Association leases three printers. During the year ended June 30, 2011, three printers with combined minimum monthly lease payments of \$507.54 were traded in for three printers with a combined minimum monthly lease payments of \$585.09. The lease term on the prior lease ranged from 48 months to 60 months. The lease term on the new printers lease is 60 months. Future minimum lease payments under this lease are \$7,021.08 per year for the next two years and \$5,265.81 for the third year. Total lease expense under the printers' leases totaled \$8,715 for the year ended June 30, 2013 and \$9,323 for the year ended June 30, 2012.

8. Concentrations

The Association receives a substantial amount of its support for its programs of providing day services to challenged individuals, from governmental sources. These revenue streams require the Association to furnish habilitation services to clients to be reimbursed at an amount stipulated in each contract. A significant reduction in the level of this support, if it were to occur, may have an effect on programs and activities. In relation, at June 30, 2013, approximately 64% (approximately \$66,000) of the Associations accounts receivable are due from governmental sources – Medicaid. The remainders of the Association's accounts receivable at year end are due from one party related to a provider contract – Res Care.

9. Commitments and Contingencies

At June 30, 2013, the Association was involved in litigation surrounding an automobile accident involving an employee of the Association driving a vehicle owned by the Association. It is anticipated that should settlement be required, the costs of settlement, including attorney fees, will not exceed the limits provided by the Association's insurance provider. Subsequent to year end, the litigation described above was settled. The costs of settlement, including attorney fees, did not exceed the limits provided by the Association's insurance provider.

At June 30, 2013, the Association was not involved in any other outstanding litigation or claims requiring adjustment or disclosure in the financial statements.

10. Prior Period Adjustment

The Association has restated its financial statements for the year ending June 30, 2011 and June 30, 2012 and the adjustments included in the restatements are presented in the financial statements for the year ending June 30, 2013 and the summarized information for the year ending June 30, 2012 as follows:

	<u>2013</u>	<u>2012</u>
Beginning Net Assets, Before Prior Period Adjustment	\$ 1,184,402	\$ 1,166,685
Prior Year Restatement to Accrue Prior Year Medicaid Receivable	<u>123,262</u>	<u>63,923</u>
Restated Beginning Net Assets, After Prior Period Adjustment	1,307,664	1,230,608
Change in Net Assets, Before Restatement	106,564	17,717
Restatement to Accrue Medicaid Receivable	<u>-</u>	<u>59,339</u>
Revised Change in Net Assets, After Restatement	<u>106,564</u>	<u>77,056</u>
Ending Net Assets, Restated	<u>\$ 1,414,228</u>	<u>\$ 1,307,664</u>

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2013
(with 2012 summarized comparative information)

The Association was required to record a prior period adjustment of \$123,262 in 2013 to accrue prior year Medicaid receivables. In relation, adjustments were made to restate the 2011 and 2012 financial statements. The effect of the adjustments was an increase in accounts receivable, Medicaid revenue, and unrestricted net assets of \$63,923 and \$ 59,339 for the years ending June 30, 2011 and 2012, respectively. The adjustments included in these restatements are reflected as a prior period adjustment to beginning net assets in the financial statements for the year ending June 30, 2013. Additionally, comparative summarized information presented for the year ending June 30, 2012 has been restated to include the adjustments included in the restatement of the 2012 financial statements and the 2011 adjustments included in the restatement of those financial statements are reflected as a prior period adjustment to beginning net assets in the comparative summarized information presented for the year ending June 30, 2012.

11. Subsequent Events

Subsequent to year end, the litigation described in Note 9 was settled. The costs of settlement, including attorney fees, did not exceed the limits provided by the Association's insurance provider.

Subsequent events have been evaluated by management through March 13, 2014, the date the financial statements were available for issuance. No events were noted that require recording or disclosure in the financial statements for the fiscal year ending June 30, 2013.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of the
Franklinton Association for Challenged Citizens, Inc.
Franklinton, Louisiana

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Franklinton Association for Challenged Citizens, Inc. (a nonprofit organization) (the "Association"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated March 13, 2014

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and responses as findings 2013-1, 2013-2, and 2013-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as finding 2013-4.

The Association's Response to Findings

The Association's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

BRANDY WESTCOTT, LLC



Brandy Westcott Garcia, CPA
Member

Springfield, Louisiana
March 13, 2014

Franklinton Association for Challenged Citizens, Inc.
Schedule of Findings and Responses
For the Year Ended June 30, 2013

I have audited the financial statements of Franklinton Association for Challenged Citizens, Inc. (a nonprofit organization) (the "Association"), as of and for the year ended June 30, 2013, and have issued my report thereon dated March 13, 2014. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the financial statements as of June 30, 2013, resulted in an unmodified opinion.

Section I Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses ☒ Yes ☐ No Significant Deficiencies ☐ Yes ☒ No

Compliance

Compliance Material to Financial Statements ☒ Yes ☐ No

b. Federal Awards ☒ Not Applicable

Internal Control

Material Weaknesses ☐ Yes ☐ No Significant Deficiencies ☐ Yes ☐ No

Type of Opinion On Compliance
For Major Programs

Unqualified ☐ Qualified ☐
Disclaimer ☐ Adverse ☐

Are there findings required to be reported in accordance with Circular A-133, Section .510(a)?
☐ Yes ☐ No

Was a management letter issued? ☐ Yes ☒ No

c. Identification of Major Programs:

CFDA Number(s)

Name of Federal Program (or Cluster)

Dollar threshold used to distinguish between Type A and Type B Programs: \$ _____

Is the auditee a 'low-risk' auditee, as defined by OMB Circular A-133? ☐ Yes ☐ No

Section II Financial Statement Findings

Finding 2013-1 Lack of Controls Over Cash (Material Weakness)

Criteria: A properly designed and implemented internal control system provides, among other things, for the security of the Association's assets, including cash and the proper recording of transactions.

Condition: Control activities were not designed or implemented to safeguard the Association's cash and

ensure that transactions were properly recorded. Disbursements from the Association's savings accounts were made using cashier's checks that only required one signature. Statements on the accounts were not obtained by the Association for the entire fiscal year. The accounts were not reconciled for the entire fiscal year despite the material amount of combined cash in the accounts and the material amount of the current year combined annual disbursement from the accounts. No transactions within the accounts were recorded in the general ledger for the entire fiscal year until the year end accounting procedures.

Cause: The Association began disbursing cash from savings accounts in the current year that had for a lengthy amount of time only been used to maintain cash for savings. The Association failed to design adequate internal controls over these accounts.

Effect: Without proper internal controls over cash, the Association is exposed to many risks including, but not limited to, the risk of improper or unauthorized transactions; misappropriation of assets; and incomplete, inaccurate or fraudulent financial reporting. The lack of internal controls over these cash accounts represents a material weakness in the design of the internal controls over financial reporting.

Recommendation: The Association should immediately design internal controls over savings accounts including, but not limited to, dual signatures, account statement review, and account reconciliation while ensuring proper segregation of duties surrounding the accounts. The Association should immediately review its internal controls over all of its cash accounts to ensure the adequacy of the internal controls over cash and continuously monitor all internal controls to ensure that they are adequate and to ensure that they are operating effectively.

Management's Response: The Association recognizes the need to design and implement effective internal control activities. The Association intends to implement auditor recommendations immediately.

Finding 2013-2 Management Override of Controls (Material Weakness)

Criteria: A properly designed and implemented internal control system provides, among other things, for the security of the Association's assets, including cash and the proper recording of transactions. The Association has maintained that part of its internal control system, includes controls over the disbursement of cash, including , but not limited to the following controls: checks are prenumbered, the sequence accounted for regularly, and unissued checks are controlled and kept in a secure location.

Condition: Certain internal control activities implemented as part of the internal control system were not operating effectively for a portion of the current fiscal year. The following specific conditions exist: (1) The accounting system used by the association's accountant assigns and prints a check number on the prenumbered check stock. The number assigned by the system and printed on the check is the number recorded in the general ledger. As part of the system's automated controls, the system does not allow for duplicate check numbers to be assigned and issued. However, it was noted in the prior year that the accountant was running the Association's payroll from a computer separate from that which the general ledger was maintained and the payroll totals were entered into the general ledger through a journal entry. As such, payroll check numbers were not entered and tracked by the general ledger; only checks issued out of the payroll cash account from the general ledger computer were appropriately tracked and controlled by the system and duplicate check numbers were erroneously issued from the payroll cash account within the general ledger. This continued for the first half of the current year until the issue was communicated to the Association during the prior year audit and the issuance of the prior year audit findings. While the accountant indicated that the payroll checks would then be printed from only the general ledger computer, she became ill shortly after. The general ledger was started by the new accountant effective January 1 although not taking over payroll until the 4th quarter. As such, it is impossible to determine whether the issue continued and resolution can only be determined once the new accountant took over in the 4th quarter; (2) Also in the prior year, it was noted that misprinted checks that were not issued or checks affected by a misprint and which were also not issued were not being properly voided or secured. Instead many, were being filed with other Association documents without being physically voided. This continued for the first half of the current year until the issue was communicated to the Association during the prior year audit and the issuance of the prior year audit findings. Such checks during that time currently remain in the Association files not physically voided.

These two issues were either not noted by other members of the Association's management during review and approval procedures or were not adequately addressed once noticed.

Cause: Management override of implemented controls due to a lack of detailed understanding of specific items within the internal control system.

Effect: Management override of controls leaves the Association exposed to many risks including, but not limited to, the risk of improper or unauthorized transactions; misappropriation of assets; and incomplete, inaccurate or fraudulent financial reporting. Management override of controls is considered a material weakness in the operation of the internal control system.

Recommendation: The Association should adhere to the following recommendations: (1) The Association's management should ensure an adequately detailed understanding of specific items within the internal control system and ensure that review and approval procedures are being properly performed; and (2) All misprinted checks or otherwise not issued checks should be physically voided immediately and all previously unissued checks should be physically voided immediately.

Management's Response: The Association intends to immediately implement the auditor's recommendations.

Finding 2013-3 Lack of Proper Board Oversight (Material Weakness)

Criteria: A properly designed and implemented internal control system includes, among other things, continuous and adequate oversight by those charged with governance. Those charges with governance for the Association are the members of its Board of Directors.

Condition: During the current year, there was a lack of proper oversight by the Association's Board of Directors. The following specifics were noted: (1) During the prior year audit, it was noted that the Association began issuing checks from the payroll cash account with only one signature from an authorized signer on the account. As the Association's accountant was an authorized signer on the payroll account, it then became possible for disbursements from that account to be authorized and recorded by an individual who maintains essential custody of the cash asset. Additionally, electronic transfer forms authorizing the transfer of the Association's cash contained only one signature line. While this was corrected immediately following the communication of this matter by the auditor, it went undetected by the Association's Board for 5 months of the current fiscal year; (2) Board approved transactions from the Association's savings accounts were not recorded in the general ledger and no account statement or reconciliation was being reviewed by the Board on these accounts; as more fully described above in finding 2013-1. The combined account balances and transaction amounts were material during the year, yet the failure to record the transactions was undetected by the Board; (3) Double payments were made to the accountant twice during the last half of the current year; and (4) During the current year, the Association's accountant became ill and it was later determined that she was terminally ill. The Association searched and hired a new accountant near year end. Beginning in January 2013, the Board was not provided any monthly financial data for review until year end accounting procedures, well after the fiscal year end date.

The details of the specifics noted above collectively demonstrate a lack of proper Board oversight during the year.

Cause: The lack of proper Board oversight is due to the following: As it relates to (1) and (2) within the condition, the lack of proper Board oversight is due to a lack of detailed understanding of specific items within the internal control system; As it relates to (3) and (4), the lack of Board oversight is due to the unforeseen and rapid decline in the health of the long standing accountant for the Association and the lead time in receiving reliable financial data from the new accountant due to the fact that the prior accountant's illness prevented any professional collaboration between the parties.

Effect: A lack of proper Board oversight leaves the Association exposed to many risks including, but not limited to, the risk of improper or unauthorized transactions; misappropriation of assets; and incomplete, inaccurate or fraudulent financial reporting. Lack of proper Board oversight is considered a material weakness in the operation of the internal control system.

Recommendation: The Association should adhere to the following recommendations: (1) The Association's Board should ensure an adequately detailed understanding of specific items within the internal control system of the Association; and (2) The Association's Board should review internal controls for adequacy and monitor their effectiveness on an ongoing basis.

Management's Response: The Association intends to immediately implement the auditor's recommendations.

Finding 2013-4 Timely Submission of Audited Financial Statements (Noncompliance)

Criteria: Louisiana Revised Statute 24:513 required the Association's audited financial statements to be completed and submitted to the Legislative Auditor within six months of the fiscal year end.

Condition: The Association's audit was not completed and the report not submitted within six months of the fiscal year end.

Cause: The audit was not completed within six months of fiscal year end due to the unforeseen and rapid decline in the health of the long standing accountant for the Association and the lead time in receiving reliable financial data from the new accountant due to the fact that the prior accountant's illness prevented any professional collaboration between the parties.

Effect: Noncompliance with the above referenced statute.

Recommendation: The circumstances surrounding the audit timing were unforeseen and out of the ordinary. The Association requested and obtained an extension from the Legislative Auditor based on the circumstances. As such, the current year recommendation is to continue moving forward with financial reporting tasks in a timely manner and ensure that the time line for year end procedures provides adequate time to comply with the statutory audit deadline in the future.

Management's Response: The Association will do so.

Section III Federal Award Findings and Questioned Costs

No Section III Findings.

Franklinton Association for Challenged Citizens, Inc.
Schedule of Prior Year Findings and Responses
For the Year Ended June 30, 2013

Section I Internal Control and Compliance Material to the Financial Statements

Finding 2012-1 Lack of Segregation of Duties (Material Weakness)

Criteria: Proper segregation of incompatible duties requires that there be different individuals responsible for authorizing transactions, recording transactions and maintaining custody of related assets.

Condition: Incompatible duties are being performed by the Association's accountant.

Cause: (1) During the current fiscal year, the Association began using check stock for its payroll account that contained only one signature line. The Association failed to effectively redesign its internal control system surrounding dual signatures and began issuing checks from the payroll cash account with only one signature from an authorized signer on the account. As the Association's accountant is an authorized signer on the payroll account, it then became possible for disbursements from that account to be authorized and recorded by an individual who maintains essential custody of the cash asset. (2) Electronic transfer forms authorizing the transfer of the Association's cash contain only one signature line. The Association failed to effectively design its internal control system surrounding dual signatures and transferred cash throughout the year with only one approved signature. As the Association's accountant is an authorized signer on the cash operating accounts and payroll accounts, it then became possible for cash transfers to be authorized and recorded and maintained by an individual who maintains essential custody of the cash asset.

Effect: Without segregation of incompatible duties, the Association is exposed to many risks including, but not limited to, the risk of improper or unauthorized transactions; misappropriation of assets; and incomplete, inaccurate or fraudulent financial reporting. The lack of segregation of incompatible duties represents a material weakness in the design of the internal controls over financial reporting.

Recommendation: The Association should immediately redesign its internal control system related to authorization of cash transactions such that no one individual is responsible for authorizing transactions, recording transactions and maintaining custody of related assets. Specifically, the Association should either (1) require, as part of its internal control system, dual signatures on all disbursements, withdrawals or transfers of cash; or (2) if one signature is to be used, the Association should remove their accountant as an authorized signer on all cash accounts and only include employees with positions of management and Board Members as signers on the accounts.

Current Year Status: Resolved.

Finding 2012-2 Management Override of Controls (Material Weakness)

Criteria: A properly designed and implemented internal control system provides, among other things, for the security of the Association's assets, including cash and the proper recording of transactions. The Association has maintained that part of its internal control system, includes controls over the disbursement of cash, including, but not limited to the following controls: checks are prenumbered, the sequence accounted for regularly, and unissued checks are controlled and kept in a secure location.

Condition: Certain internal control activities implemented as part of the internal control system are not operating effectively. The following specific conditions exist: (1) The accounting system used by the association's accountant assigns and prints a check number on the prenumbered check stock. The number assigned by the system and printed on the check is the number recorded in the general ledger. As part of the

system's automated controls, the system does not allow for duplicate check numbers to be assigned and issued. However, the accountant is running the Association's payroll from a computer outside separate from that which the general ledger is maintained and the payroll totals are entered into the general ledger through a journal entry. As such, payroll check numbers are not entered and tracked by the general ledger; only checks issued out of the payroll cash account from the General Ledger computer are appropriately tracked and controlled by the system and duplicate check numbers were erroneously issued from the payroll cash account within the general ledger; (2) Misprinted checks that are not issued or checks affected by a misprint and which are also not issued are not being properly voided or secured. Instead many, are being filed with other Association documents without being physically voided.

Cause: Management override of implemented controls due to a lack of detailed understanding of specific items within the internal control system.

Effect: Management override of controls leaves the Association exposed to many risks including, but not limited to, the risk of improper or unauthorized transactions; misappropriation of assets; and incomplete, inaccurate or fraudulent financial reporting. Management override of controls is considered a material weakness in the operation of the internal control system.

Recommendation: The Association should adhere to the following recommendations: (1) The Association's accountant should gain a more detailed understanding of specific items within the internal control system. The Association should immediately cease the use of two computers to maintain it's transaction and perform all accounting functions within one accounting system on one computer so that all automated controls are allowed to operate effectively; (2) Checks printed with a system assigned number, different than the prenumbered physical number, should be physically voided immediately, the prenumbered check with the number matching the number misprinted by the system should also be physically voided immediately, and both numbers (prenumbered number and the system assigned and printed number) should be immediately voided within the accounting system; and (3) Checks that are misprinted or are affected by a misprint of any sort and which are not issued, should be physically voided immediately and voided within the accounting system immediately

Current Year Status: Repeated as part of current year Finding 2013-2.

Section II Internal Control and Compliance Material to Federal Awards

No Section II Findings.

Section III Management Letter

No Section III Findings.

This schedule was prepared by management.